

THIRTY-EIGHTH

ANNUAL REPORT

of the

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM



COVERING OPERATIONS FOR
THE YEAR

1951

direction was unchanged from that issued on February 6-8, the limitation in the first paragraph was increased from 2 billion to 3 billion dollars in anticipation of the possibility of an increased volume of transactions which might be necessary over the period immediately ahead in carrying out the policy.

MARCH 8, 1951

1. Authority to Effect Transactions in System Account.

The following direction to the executive committee, which was in the same form as the direction issued at the meeting on March 1-2, 1951, was approved:

The executive committee is directed, until otherwise directed by the Federal Open Market Committee, to arrange for such transactions for the System open market account, either in the open market or directly with the Treasury (including purchases, sales, exchanges, replacement of maturing securities, and letting maturities run off without replacement), as may be necessary, in the light of current and prospective economic conditions and the general credit situation of the country, with a view to exercising restraint upon inflationary developments, to maintaining orderly conditions in the Government security market, to relating the supply of funds in the market to the needs of commerce and business, and to the practical administration of the account; provided that the aggregate amount of securities held in the account at the close of this date other than special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury shall not be increased or decreased by more than 2 billion dollars.

The executive committee is further directed, until otherwise directed by the Federal Open Market Committee, to arrange for the purchase for the System open market account direct from the Treasury of such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the total amount of such certificates held in the account at any one time shall not exceed 1 billion dollars.

Votes for this action: Messrs. McCabe, Chairman, Sproul, Vice Chairman, Eccles, Evans, Gidney, Gilbert, Leedy, Norton, Powell, Szymczak, Vardaman, and Williams. Votes against this action: none.

In adopting the above direction, it was understood that the Committee would continue to carry out the policy approved at the meeting on March 1-2, 1951, but it was felt that the limitation in the first paragraph could

be reduced from 3 billion to 2 billion dollars without interfering with the execution of that policy.

MAY 17, 1951

1. Authority to Effect Transactions in System Account.

The following direction to the executive committee, which was in the same form as the direction issued at the meeting on March 8, 1951, was approved:

The executive committee is directed, until otherwise directed by the Federal Open Market Committee, to arrange for such transactions for the System open market account, either in the open market or directly with the Treasury (including purchases, sales, exchanges, replacement of maturing securities, and letting maturities run off without replacement), as may be necessary, in the light of current and prospective economic conditions and the general credit situation of the country, with a view to exercising restraint upon inflationary developments, to maintaining orderly conditions in the Government security market, to relating the supply of funds in the market to the needs of commerce and business, and to the practical administration of the account; provided that the aggregate amount of securities held in the account at the close of this date other than special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury shall not be increased or decreased by more than 2 billion dollars.

The executive committee is further directed, until otherwise directed by the Federal Open Market Committee, to arrange for the purchase for the System open market account direct from the Treasury of such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the total amount of such certificates held in the account at any one time shall not exceed 1 billion dollars.

Votes for this action: Messrs. Martin, Chairman, Sproul, Vice Chairman, Eccles, Evans, Gidney, Gilbert, Leedy, Norton, Powell, Szymczak, and Williams. Votes against this action: none.

The period March 8 to May 17, 1951, was one of basic readjustment to the new debt management and credit policies introduced immediately following the announcement on March 4, 1951, that the Treasury and the Federal Reserve had reached full accord with respect to debt management and monetary policies to be pursued in furthering their common purpose to assure the successful financing of the Government's requirements and,

at the same time, to minimize monetization of the public debt. That announcement was accompanied by an announcement by the Treasury of a conversion issue to be offered in late March and early April in the form of a new type of nonmarketable security available on an exchange basis only to holders of outstanding bank-restricted marketable bonds callable in 1967. The detailed features of the Treasury-Federal Reserve agreement had not been announced, but it was generally understood to mean the start of a new phase in postwar open market policy with greater flexibility in the market.

Although the Federal Reserve withdrew immediately from the market for bank-eligible Treasury obligations following the March 4 announcement referred to above, it continued to purchase long-term restricted 2½ per cent Treasury bonds in large volume with a view to facilitating the Treasury exchange offering. At the outset such purchases of restricted bonds were at fixed support prices but after a few days System purchases were reduced and prices of these bonds adjusted downward rapidly. During this period, longer term Treasury bonds were offered in the market by insurance companies and other investors who wished to shift out of Government securities for various reasons, including the need to obtain funds to meet other commitments for loans or investments, the necessity of pursuing a more prudent investment policy on the part of investors who had been getting a long-term rate on short-term funds, and the desire to get into cash or short-term Treasury obligations temporarily in the hope that the funds could be placed later in long-term Treasury bonds on a more favorable basis.

The conversion offering was generally well accepted by investors and 13.5 billion dollars of the 2½ per cent Treasury bonds callable in 1967 were exchanged for the new 2¾ per cent nonmarketable bonds of 1975-80, including purchases by Treasury accounts and the System Open Market Account of 5.6 billion dollars. Although fixed support for long-term Treasury bonds was abandoned following the close of the books on the conversion offering on April 6, 1951, and there were further declines in prices, the bulk of the bonds that had been overhanging the market was removed by the conversion operation and by Treasury and Federal Reserve purchases, and subsequent Federal Reserve purchases of long-term Government securities were reduced to amounts needed for maintaining orderly market conditions.

System purchases of short-term securities had been discontinued after March and thereafter the System was able to sell short-term securities in the market and to redeem maturing bills without replacement. The short-term market had thus operated without Federal Reserve support.

The foregoing direction was adopted in the light of the transition from a program of fixed support of Treasury securities to a period in which the market was left to react more completely to the natural forces of demand and supply, thus making it possible for the System to minimize the creation

of bank reserves that had been resulting from the earlier rigid support given to long-term Treasury issues and thus to pursue an anti-inflationary policy.

OCTOBER 4, 1951

1. Authority to Effect Transactions in System Account.

The following direction to the executive committee, which was in the same form as the direction issued at the meeting on May 17, 1951, was approved:

The executive committee is directed, until otherwise directed by the Federal Open Market Committee, to arrange for such transactions for the System open market account, either in the open market or directly with the Treasury (including purchases, sales, exchanges, replacement of maturing securities, and letting maturities run off without replacement), as may be necessary, in the light of current and prospective economic conditions and the general credit situation of the country, with a view to exercising restraint upon inflationary developments, to maintaining orderly conditions in the Government security market, to relating the supply of funds in the market to the needs of commerce and business, and to the practical administration of the account; provided that the aggregate amount of securities held in the account at the close of this date other than special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury shall not be increased or decreased by more than 2 billion dollars.

The executive committee is further directed, until otherwise directed by the Federal Open Market Committee, to arrange for the purchase for the System open market account direct from the Treasury of such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the total amount of such certificates held in the account at any one time shall not exceed 1 billion dollars.

Votes for this action: Messrs. Martin, Chairman, Sproul, Vice Chairman, Gidney, Gilbert, Leedy, Norton, Powell, Szymczak, and Williams. Votes against this action: none.

At the time of this meeting the economic climate was markedly different from that existing when the Treasury-Federal Reserve accord was announced on March 4, 1951. In March, inflationary pressures were strong and it was anticipated that unless effective anti-inflation measures were taken such pressures would grow as the defense program took an increasing proportion of